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SIPDIS

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TAGS: PGOV PREL EPET ENRG ETRD EINV MASS RS VE
SUBJECT: RUSSIA INCREASES COOPERATION WITH CHAVEZ?

REF: A. MOSCOW 2127
¶B. MOSCOW 2789
¶C. MOSCOW 2843

Classified By: Political M/C Alice G. Wells. Reasons 1.4 (b) and (d).

¶11. (C) Summary: Two months since President Hugo Chavez's last visit to Russia, and two weeks after Tu-160 bombers flew to Venezuela, Chavez and a delegation of Venezuelan officials were warmly received by President Medvedev in Orenburg on September 26. They observed military exercises and continued discussions over expanding economic and military cooperation.

The signing of yet another MOU by Gazprom with the Venezuelan nationalized company came with few details, and TNK-BP officials acknowledged the "political" impulse behind the initiative. Russia also reportedly gave a USD 1 billion loan to Venezuela for military-technical cooperation. Chavez also met with PM Putin and discussed the future of nuclear energy cooperation. This visit can be viewed as part of Russia's broader foreign policy goal of advancing a "multi-polar" framework and balancing U.S. influence in the world, sending a "primitive" message that Russia can meddle in the U.S. backyard. End Summary.

Warm Reception

¶12. (SBU) During a joint press appearance of the two presidents, Medvedev lauded Chavez for the well-organized reception of the Tu-160 strategic bombers, and said they were planning to hold joint naval exercises in late November. Medvedev characterized cooperation with Venezuela as important "evidence of the strategic framework our relations are taking on." Chavez also praised the reception of the Russian bombers and used his speaking opportunity to taunt the U.S. saying, "someone to the north of our continent said these were old planes, but we were thrilled with these excellent Tu-160 aircraft." Even though Venezuela has not recognized the independence of South Ossetia and Abkhazia, Medvedev thanked Chavez for Venezuelan support of Russia's actions in the Caucasus, which Chavez characterized as "modest but resolute."

Arms Cooperation

¶13. (SBU) The GOR did not announce any new arms sales agreements with Venezuela, but press reports indicate that Moscow extended a USD 1 billion loan for the implementation of a military-technical cooperation program. While details are lacking, press reports and experts indicate this loan could be used to finance the purchase of 20 Tor M1 missile

systems and three Varshavyanka submarines, 20 patrol planes designed on the basis of Ilyushin Il-114s, and for setting up special technical maintenance centers in Venezuela to maintain military hardware, as part of Caracas's plan to spend over USD 30 billion on weapons and military equipment to rearm the Venezuelan armed forces.

Conceivable Nuclear Cooperation

¶4. (SBU) In a new area of Russian-Venezuelan cooperation, Putin told Chavez that the Russians were ready to consider the possibilities of collaboration in using atomic energy for peaceful purposes. After returning to Venezuela, Chavez has claimed that the GOR offered to help Venezuela build a peaceful nuclear energy program.

Energy Cooperation: A Colossus Is Born?

¶5. (SBU) Building on its presence in Venezuela and its previous agreements (ref A), Gazprom signed yet another MOU with the Venezuelan national oil company, PDVSA, that foresaw "large-scale interaction" between the companies in the entire range of oil and gas exploration, development, transportation, and processing. Various press reports indicated that Gazprom and PDVSA would lead a consortium of companies, to include state-owned Rosneft, Lukoil, TNK-BP, and Surgutneftegaz, with PDVSA as the majority shareholder. None of the other companies, however, officially announced anything related to this proposed consortium. Energy Minister Shmatko was quoted in the press that Russian oil companies "would pour tens of billions of dollars" into Venezuela, and Chavez reportedly proclaimed that "a colossus was being born." No details emerged, however, to support these claims.

¶6. (C) TNK-BP's Vice President for International Affairs, Shawn McCormick, told us the consortium could help the companies involved share costs and mitigate the risks associated with the huge investments needed to upgrade facilities to process Venezuela's heavy oil. However, McCormick implied the deal had a heavy political component, with Chavez looking for Russian support to counter American influence in Latin America. According to McCormick, PDVSA would also create a bank to finance the consortium, indicating it would not necessarily find adequate commercial financing.

¶7. (C) BP Russia president Richard Spies told us the effort on energy cooperation with Venezuela was being headed by Deputy Premier Igor Sechin and that TNK-BP's board had not approved anything beyond joint studies with PDVSA. He suggested this could be an example of the lack of commercial discipline at TNK-BP, with an agreement being made prior to board approval. Lena Zemskova, External Relations Director at ConocoPhillips Russia (Lukoil's partner), told us she believed the consortium would be established in the spring of 2009, but had no more details.

¶8. (C) The politics of the deal were exposed by statements by Shmatko and Gazprom President Alexey Miller noting that Russia would also seek to develop projects in Cuba and Bolivia.

Comment

¶9. (C) Experts note that, beyond arms sales, Russia's main interest in Venezuela is showing that Moscow can tinker in the U.S. backyard (ref B), with most analysts conceding the "primitiveness" of the Russian gesture, given the absence of geopolitical interests in Latin America. Chavez's visit came during a press of Russian diplomacy designed to show Moscow is not isolated after the conflict in Georgia (ref C).

Venezuela's previous offers of exploration projects to Russian companies have been less than favorable and elicited little interest on the part of Russian companies (ref A). Even if the deal goes through, it seems to us the major risk is the potential to waste billions of exploration and production dollars through inefficient state-owned entities. It remains to be seen whether Chavez will offer more attractive opportunities in relation to this consortium and whether any of the other areas of cooperation allegedly agreed during the visit amount to anything more than talk.

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